

# The missing military-industrial complex

Genuine strategic autonomy lies in creating conditions conducive to private participation in the defence industry



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**ON THE WING** A soldier walks past the C-130J-30 Super Hercules aircraft during an induction ceremony at the Hindon Air Force Station in Uttar Pradesh. What India requires is a vibrant defence industrial base with multiple domestic and international players engaged in healthy partnerships.

PHOTO: REUTERS

As Asia grapples with the management of strategic change and related security challenges, countries across the region – from India to Japan – are strengthening their defence capabilities. Meanwhile, despite periodic changes and updates of its defence production and procurement policies to try and build indigenous capacity, India's ministry of defence (MOD) has been largely unable to remedy severe constraints in the country's defence industrial base. Around two-thirds of India's defence hardware requirements are still being imported. There are endemic delays in domestic production programmes while costs continue to escalate, seriously undermining India's defence preparedness. This is an area of vulnerability that India can ill afford.

Symptoms of this deficiency abound. Even after three decades of development, the serial production of the Tejas Light Combat Aircraft is still some years away. Russian-origin SU-30MKI fighters basically continue to be assembled, not manufactured, by Hindustan Aeronautics Ltd. The long-awaited medium multi-role combat aircraft contract remains bogged down over modalities for co-production of the Rafale. In contrast, as pointed out by former Air Chief N A K Browne, "the streamlined induction and speedy operationalisation of our new assets like Mi-17 v5, C-130J, Pilatus PC-7 and C-17 aircraft have afforded us unprecedented response capabilities." Sadly, outright imports seem to work, with timely deliveries and without cost overruns.

Even in the middle of a prolonged diplomatic impasse with the US over the past month, it is significant that India concluded a contract worth \$1.01 billion for the acquisition of six additional C-130J "Super Hercules" aircraft on December 27 last year. This may be welcome for the Indian Air Force but gives

rise to concerns in some quarters about "dependence" on the US. However, a growing defence trade and technology partnership with the US is hardly likely to push India into defence dependence. If that were indeed the case, then India's defence relationship with the erstwhile USSR and now Russia would have to shoulder much of the blame. According to the Stockholm International Peace Research Institute, Russia accounted for 82 per cent of Indian arms imports during 2006-10. Decades of defence ties with Russia have not helped kick-start India's domestic defence industry, and can only be described as a patron-client relationship. Therefore, holding up the nascent India-US defence relationship as a signal of India's dependence on international players would be a wrong diagnosis. The problem lies elsewhere.

There are a number of structural constraints bedeviling India's domestic defence industry. In the past, India shunned private participation in its defence industry, while Cold War dynamics restricted defence industrial interactions with the West. Defence Public Sector Units (DPSUs) emerged as the principal players, and there are today more than 50 Defence Research and Development Organisation facilities, 41 ordnance factories and nine DPSUs. The fact that this combine is still struggling to meet the growing needs of the Indian defence forces because of inherent limi-

tations speaks for itself. Attempts at indigenisation have been largely rhetorical and less than satisfactory, to say the least.

It was only in 2001 that the defence industry was finally opened up for the Indian private sector, but procurement policies have remained heavily skewed in favour of seemingly overburdened but chronically under-performing DPSUs. The latest iteration of the Defence Procurement Procedure 2013 mandates purchases from an Indian maker as the most preferred option, which could potentially be made to work to the advantage of the Indian private sector, which still lacks operational experience, technology and resources. However, moving from the monopoly of DPSUs to the oligopoly of a few Indian private sector companies would not be a sustainable model either. What India requires is a vibrant defence industrial base with multiple domestic and international players engaged in healthy partnerships as well as competition to provide the best weaponry for the armed forces.

In a span of two decades, India has emerged as a globally competitive hub of automotive manufacturing, and it has been suggested that appropriate policy frameworks can bring about similar transformations in the Indian defence

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industry through growing private sector participation. However, it should be noted that the defence industry, unlike the automobile sector, is a monopolistic market with the government as the only buyer. This structural constraint implies that there is a greater degree of business unpredictability for private players. It is not surprising, therefore, that Indian private companies, while evincing interest, still seem to be hesitant to incur the massive capital expenditure that is required in the defence industry.

Policy measures are needed to address this particularity. Categorising companies as "designated vendors" for defence production in certain areas can give confidence to Indian private players. Developing synergies between civilian and defence needs and harnessing dual-use technologies to serve both can ensure a wider customer base. Furthermore, India needs a clearly articulated defence export policy, providing access to international markets for domestic and foreign companies operating out of India. Multinational corporations bringing in foreign direct investment (FDI) should be able to export weapons systems or components manufactured in India. China's defence industry has made great strides and is already the world's fifth largest defence exporter.

For the Indian private sector to manufacture defence products using high-end technologies, collaboration with leading global defence manufacturers and their vendor base is essential. Enhanced FDI limits, which also mandate technology transfer, collaborative research and co-development, can incentivise foreign participation in developing India's defence industrial base. As matters stand, under the current FDI cap of 26 per cent, India has received a meagre \$4.12 million in FDI inflows over the past decade. FDI should preferably be permitted up to 100 per cent. It is remarkable how we are happy to import foreign-made defence equipment without realising the need to create a conducive environment for its production within India.

Along with these systemic and regulatory reforms, addressing bureaucratic delays and bottlenecks in MOD is another imperative. With the defence budget under increasing stress following India's economic downturn, long-projected reforms such as a Chief of Defence Staff are key to establishing well-considered and balanced priorities for defence acquisitions.

Implementation of India's defence modernisation plans has continually fallen behind. India's MOD must display a stronger sense of strategic purpose in fostering a diversified defence industrial sector, with DPSUs co-existing alongside a multiplicity of private sector players, both domestic and foreign.

MOD would also do well to speedily take forward proposals for joint collaboration with the US that have been on the table since last September. It would be good to test former US Deputy Defence Secretary Ashton Carter's pledge to provide India with "all the capabilities it needs to meet its security requirements", and the affirmation in the bilateral joint declaration concluded in September 2013, that "the United States and India share common security interests and place each other at the same level as their closest partners".

If India aspires to genuine strategic autonomy, building defence industrial capability through the induction of the highest technologies extant would be a good place to start.

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